

## **AGENDA**

### **Roundtable on Proposed Policy Statement Regarding PCAOB Rule 4012**

Army-Navy Club  
901 17th Street NW, Washington, D.C.  
June 25, 2008  
1:30 pm

**1:30 – 1:40 pm      Welcome and Introduction**

*Welcome remarks by Mark W. Olson, PCAOB Chairman*  
*Introductory remarks by Rhonda Schnare, PCAOB Director of International Affairs*

**1:40 – 3:00 pm      Discussion Topic I: Full Reliance Approach Generally**

**3:00 – 3:20 pm      Coffee Break**

**3:20 – 5:00 pm      Discussion Topic II: Defining and Assessing the  
Essential Criteria**

### **Questions for Discussion**

#### **Discussion Topic I: Full Reliance Approach Generally**

1. Since 2005, and consistent with Rule 4012, the PCAOB has been able to conduct joint inspections with auditor regulators in five jurisdictions and PCAOB-only inspections in approximately fifteen jurisdictions that do not currently have an auditor regulator conducting regular inspections.

*Question: What obstacles exist in non-U.S. jurisdictions that could affect the PCAOB's ability to conduct inspections of non-U.S. firms going forward (PCAOB-only inspections or joint inspections)? Can the proposed full reliance approach help to alleviate these obstacles?*

2. Since 2005, and consistent with Rule 4012, the Board has placed some degree of reliance on work conducted by certain non-U.S. oversight entities in the context of inspections. Under Rule 4012, the degree of reliance placed by the Board on work of non-U.S. oversight entities is based on the independence and rigor of the non-U.S. oversight system – the greater the independence and rigor of the non-U.S. oversight system, the greater the degree of reliance placed on that system.

*Question: Should the Board continue to do joint inspections as we've been doing rather than moving to full reliance for auditor regulators that meet the essential criteria set forth in the Proposed Policy Statement? Why or why not?*

3. Some comment letters point out that many jurisdictions are not currently positioned to meet the proposed essential criteria for full reliance in inspections.

*Question: What is the advantage or disadvantage of the Board issuing this guidance now versus waiting until more jurisdictions are able to meet the proposed essential criteria?*

## **Discussion Topic II: Defining and Assessing the Essential Criteria**

1. Rule 4012 provides the framework for the Board to determine the degree to which it may rely on a non-U.S. inspection. As part of reaching a determination for full reliance under Rule 4012, in the Proposed Policy Statement, the Board states that it would “require that its staff gain a thorough understanding – including through working with the non-U.S. entity’s staff through joint inspections – before recommending that the Board place full reliance on any particular non-U.S. oversight system.”

*Question: Should the Board conduct joint inspections as part of its assessment of the eligibility of non-U.S. oversight entities for full reliance? What should be the parameters for joint inspections, i.e., should there be a minimum length of time?*

2. In addition to conducting joint inspections as part of determining full reliance under Rule 4012, in the Proposed Policy Statement, the Board states that it must have the opportunity to observe portions of the inspection even where full reliance is appropriate. The Board also states that:

Observation may involve a range of activities and, depending on facts and circumstances, may vary by jurisdiction or inspection. For example, in some instances, PCAOB inspectors may simply consult with the non-U.S. oversight entity about its inspection plans or discuss with the non-U.S. inspectors any complicated or material inspection findings relevant to U.S. public companies. In other cases, PCAOB inspectors may request to accompany the non-U.S. inspection team to the audit firm for interviews with key firm personnel. Finally, there may be occasions when the PCAOB would request that the non-U.S. oversight entity allow PCAOB inspectors to review portions of the firm's audit work papers.

*Question: What form of observation is appropriate once the Board has determined that full reliance is appropriate, and what are the relevant factors that the Board should consider when deciding the appropriate form of observation for a given non-U.S. oversight entity?*

3. Under Principle 2 of the Proposed Policy Statement – captioned “Independence of the Non-U.S. System” – there are six essential criteria. The first criterion under this principle requires that “the majority of the governing body of the non-U.S. oversight entity must be comprised of persons who are not current or former accountants or auditors or affiliated with an audit firm or the audit profession.” Thus, while this essential criterion would permit a minority of the governing body to include current or former auditors, former accountants would not qualify as independent to serve in the majority in this regard.

With regard to the Board's composition, the Sarbanes-Oxley Act requires two of the five PCAOB Board members to be or have been certified public accountants. There is a five year cooling-off period if one of those two members is the chairperson. The Act also prohibits the Board members from having any other employment.

*Question: Do you agree with this criterion's definition of independence for the governing body? Why or why not?*

4. Section 104(g) of the Sarbanes-Oxley Act requires, among other things, that the Board make available in appropriate detail a written report of the findings for each inspection. The Proposed Policy Statement includes a criterion on public reporting. Under Principle 4 – captioned “Transparency of the Non-U.S. System – there are four essential criteria. The third criterion under this principle requires that “the non-U.S. oversight entity must either issue public inspection reports on individual firms or agree not to object to the PCAOB issuing such reports based on information from the non-U.S. oversight entity’s inspections.” The criterion goes on to describe the minimum content of the public report and states that if the non-U.S. oversight entity issues public inspection reports for individual firms meeting the minimum content requirement, then the PCAOB intends to publish a reference to the non-U.S. entity’s public report for each firm’s inspection.

*Question: What are the advantages and disadvantages of the proposed essential criterion requiring the publication of individual inspection results? How, if at all, should this criterion be changed?*